

**DCL 02-06****DATE:** March 20, 2002**TO:** ALL IV-D DIRECTORS**RE:** State Disbursement Unit (SDU) Payment Processing and Physical Security

Dear Colleague:

As you know, we are currently conducting state child support system certification reviews to determine compliance with the state systems requirements of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA). The document entitled "Automated Systems for Child Support Enforcement: A Guide for States," revised April 1999, and updated December 1999 and August 2000, (the Guide) sets forth the requirements that a state system must meet to receive PRWORA certification. During the certification process, we review the SDU payment process, including internal controls and physical security under Objectives F-2 and H-2g of the Guide.

We have reviewed the SDU in 46 states and jurisdictions and identified certification-related deficiencies regarding payment processing including internal controls and physical security. Some states have raised concerns that the Guide is not specific regarding physical security requirements. Generally accepted government and industry accounting and payment processing practices and standards require checks, money orders, cash, and other negotiable documents, to be received and processed in a secure environment. OCSE, as the Federal agency with oversight responsibility for the title IV-D program, needs to ensure that SDUs meet basic internal control, payment processing, and physical security requirements so that children receive the payments intended for their support. Therefore, the following policy and actions are adopted to address state concerns and the need for SDUs to meet basic payment processing and physical security standards:

- A state can receive conditional PRWORA certification if it fails to correct SDU payment processing and/or physical security deficiencies identified during the certification process as a certification issue(s). As a result, if the state otherwise qualifies for certification, the state will not be subject to the IV-D state plan disapproval process, or alternative system penalty.
- OCSE plans to revise Appendix D – Conditional Certification of the Guide to indicate that conditional certification will be granted to a state if the certification review identifies payment processing and/or physical security deficiency or deficiencies as certification issue(s), and the state otherwise qualifies for certification. In addition, we will revise Appendix B – Guidance in Preparing for PRWORA Certification Reviews – to address physical security documentation that needs to be submitted prior to the review, and what the review team needs to see during the review. This guidance will apply to lifting conditions. We plan to issue these changes to the Guide in August 2002.
- OCSE is disseminating to the states for comment and their input the enclosed SDU standards, which address payment processing, including internal controls and physical

security. We plan to issue final standards after input from states. The standards will be used to audit any state which has a certification condition related to the SDU which OCSE has not lifted by August 20, 2003. Comments on the standards must be submitted to Keith Bassett, Director, OCSE Office of Audit, 370 L'Enfant Promenade, S.W., Washington, D. C. 20447 by August 20, 2002.

- OCSE is working with the Internal Revenue Service to resolve issues regarding the use of IRS data and information. We hope to resolve the issues on IRS data at the same time that we issue the SDU payment processing and security standards in August 2002.
- OCSE will conduct an audit of any SDU where a PRWORA systems certification finding has not been corrected by August 2003 under authority of section 452(a)(4)(C)(iii) of the Social Security Act (the Act). If the state does not meet the required SDU standards during the audit, it will be subject to the corrective action and penalty provisions of section 409(a)(8) of the Act, which can result in the loss of IV-A funds. However, if the state corrects the SDU-related deficiency or deficiencies, and the certification condition is lifted by August 2003, an audit of the state's SDU will not be necessary.

This approach was developed as a reasonable way to balance concern over security and internal controls of child support payments with the need for flexibility in Federal and state processes. I hope that the IV-D Directors view our approach in a similar manner.

If you have any questions, contact Robin Rushton (202) 690-1244 regarding system certification, and Keith Bassett (202) 401-9387 regarding the SDU standards and audit process.

Sincerely,

Sherri Z. Heller Ed. D.  
Commissioner  
Office of Child Support Enforcement

cc: Regional Program Managers  
Regional Hub Directors/Administrators

Attachment :

Guide for Auditing State Disbursement